

# SBA Loan Program Updates & Clarifications

## \*\*\*SESSION ONE\*\*\*

*Presented By:*  
*Mike Fazio & Ellie Berg*  
*SBA Milwaukee District Office*

# What Will Be Covered



- Fee Changes Effective October 1, 2013
- Discontinued Loan Programs
- Veterans Loan Program
- SOP 50 10 5 Changes Effective January 1, 2014
  - SOP 50 10 5 (F) SubPart B Chapters 2, 3 & 4

# Fees Effective October 1, 2013

- **7(a) Loans Over \$150,000**
  - Yearly (On-Going) Fee Reduced to .52%
  - Upfront Guaranty Fee – No Change
- **7(a) Loans \$150,000 or Less**
  - No Upfront Guaranty Fee
  - No On-Going Fee
  - Must Aggregate Approvals Within 90 Days

# Discontinued Loan Programs

---

- Dealer Floor Plan  
Expired September 30, 2013
- Small/Rural Lender Advantage  
Expires December 31, 2013
- Patriot Express  
Expires December 31, 2013

# Veterans Loan Program

---

- Starts January 1, 2014
- Authorized Under SBA Express Loan Program
- Loans Up To \$350,000
- No Borrower Upfront Fee
- No Ongoing Fee To Lender Up To \$150,000

# SOP 50-10-5 (F)

- **Changes/Clarifications to 7(a) Loan Policies Effective January 1, 2014**
  - Eligibility (SubPart B Chapters 2 & 3)
  - Credit Standards (SubPart B Chapter 4)
  - Collateral (SubPart B Chapter 4)

# 7(a) Policy Updates - Eligibility

- **Franchise Agreements (Page 78)**

- Agreement acceptability does mean the applicant is eligible, all other eligibility requirements must be reviewed
- Delegated Lenders may submit agreements to SBA for affiliation determination
- Clarification on fitness centers that target one gender
- Franchisor appeal process established in SOP

# 7(a) Policy Updates - Eligibility

- **Guidance on business engaged in Promoting Religion (Page 92)**

If religious affiliation/issues arise:

- Religious Eligibility Worksheet required
  - Appendix 8 (SBA Form 1971) in SOP 50-10-5 (F)
- If using delegated authority - keep in file
- Non-delegated processing - submit with application



# 7(a) Policy Updates - Eligibility

- **Businesses with Associate(s) of Poor Character (Pages 93-98)**
  - Must obtain SBA Form 912
  - All delegated lenders can clear 912s for delegated processing if they meet specific requirements – remember to send a copy of clearance to OIG/OSO for name check
  - Ensure that all details required are provided

# 7(a) Policy Updates - Eligibility

- **Businesses Providing Prurient Sexual Material (Page 99)**

- Updated guidance on documenting eligibility
- Loans approved through delegated process must contain documentation in file
- Non-delegated loan requests must include justification/documentation

- **Prior Loss to Government (Page 99)**

- Delegated processing required to determine prior loss for principals or businesses.

# 7(a) Policy Updates - Eligibility

- **Debt Refinancing**
  - Business valuation required only if refinancing seller note (Page 115)
  - Refinancing an SBA Guaranteed loan (Page 116)
    - Either lender or borrower can provide documentation that current lender declined to approve an increase in loan amount or a second loan and that lender is either unwilling or unable to modify the current payment schedule.
  - Can use 7(a) Loan to Refinance 504 (Page 117)

# Who May Do Business With SBA (Page 158)

- Agents suspended, debarred, revoked and/or excluded under Government-wide debarment regulations are not permitted
  - Lender responsible for consulting System for Awards Management (SAM) / Excluded Parties List System (EPLS)
- See <http://www.sba.gov/about-sba-services/18351>

# 7(a) Policy Updates - Credit

## **Loans Up To \$350,000 (Pages 161-163)**

- Use SLA process/credit analysis requirements including pre-screening credit score
- Loans \$50,001 to \$350,000 must demonstrate a global cash flow of 1.1 or greater using historical or projected basis. Formula used must be provided.
- Income tax analysis and verification using 4506-T process must be completed prior to application

# 7(a) Policy Updates - Credit

## **Loans from \$350,001 to \$5 million**

**(Page 163 - 166)**

- Cash Flow Defined as EBITDA
- Debt Service Coverage Ratio must be 1.15 to 1 or greater on a historical and/or projected basis
- Equity requirement for loans in excess of \$350,000

# 7(a) Policy Updates - Collateral

- Loans of \$25,000 or less, not required to take collateral
- Loans \$25,001 to \$350,000, follow internal policies for similar sized non-SBA loans, but must at least take a lien of the fixed assets
- For loans in excess of \$350,000, SBA requires lender collateralize the loan to the maximum extent possible up to the loan amount (Page 168)

# 7(a) Policy Updates - Collateral

- **How to determine if a loan is fully secured (Page 169)**
  - Valuation methods:
    - Adjusted net book value (ANBV): Original purchase price minus depreciation and amortization
    - Orderly liquidation appraised value (OLV)
  - Discounted accordingly:
    - New M&E: 75% of ANBV or 80% of OLV
    - Used M&E: 50% of ANBV or 80% of OLV
    - Real Estate: 85% \*Based on appraisal value following SBA requirements\* (Page 171)



# 7(a) Policy Updates - Collateral

---

- Lenders may use SBA Form 148 for personal guaranties or own form. (Page 169)
- Additional collateral from personal assets need to be pledged only up to collateral shortfall amount. (Page 170)

# 7(a) Policy Updates - Collateral

- **Real estate appraisals (page 171)**
  - Real Estate Appraisal needed only if:
    - Loan is greater than \$250,000 and
    - Loan is collateralized by Real Estate
  - When Appraisals are required, lenders must:
    - Obtain an appraisal by a state licensed or certified appraiser and follow their primary regulator's FIRREA requirements for appraisals
    - Appraisals must be in compliance with USPAP and dated within 12 months of application

# 7(a) Policy Updates - Collateral

- **A Going Concern Appraisal may be used to meet these requirements if:**
  - The loan proceeds will be used to purchase a special use property
  - The appraisal is performed by an appraiser experienced in the particular industry and who is a “qualified source”
  - The appraisal allocates separate values to the individual components of the transaction including land, building, equipment and intangible assets

# 7(a) Policy Updates - Collateral

- **When a business valuation is required, only the following qualified sources may be used (Page 174):**
  - Accredited Senior Appraiser (ASA)
  - Certified Business Appraiser (CBA)
  - Accredited in Business Valuation (ABV)
  - Certified Valuation Analyst (CVA)
  - Accredited Valuation Analyst (AVA)

**NOTE: A CPA without one of these certifications is no longer a qualified source**

# Wisconsin District Offices

## Lender Relations Specialists

- **Milwaukee Office (East WI)**
  - Mike Fazio, 414-297-1097
  - Ellie Berg, 414-297-1488
- **Madison Office (West WI)**
  - Becky Freund, 608-441-5519

